

# Budget Workshop #2: “Revenue & Pre-Commitments”

## May 9, 2017

### Budget Workshop Calendar

Overview May 2

Revenue & Pre-commitments May 9

Proposed Funding Priorities May 16

Proposed Funding Priorities Continued May 23

Continued Discussion if needed May 30

### May 9 Meeting Agenda:

1. City of Springfield Budget Definition and Process.
2. Guidelines for Budget Development.
3. City Manager’s Analysis & Budget Recommendations.
4. The City’s Revenue Sources
5. Fiscal Year 2017 and 2018 Revenue Highlights & Projections.
6. One-Time Funding Sources Used to Balance FY18
7. New Funding Model Proposal

## 1. City of Springfield Proposed Annual Budget Definition & Process

- **DEFINITION:** The annual budget is a plan – a financial proposal that directs the provision of public services and facilities. The services provided by a public organization are based on the available revenues (funds) from all sources as approved in its annual budget.
- **WHERE TO FIND DETAILS:** Throughout the budget workshop process (May 1 – June 30), the public has access to both the proposed budget and the later adopted budget online at [Springfieldmo.gov/Budget](http://Springfieldmo.gov/Budget) and at [Springfieldmo.gov/OpenData](http://Springfieldmo.gov/OpenData) (our data portal).
- On both of these web pages, there are links to full, line item detail reports in addition to helpful summaries.
- Printed copies of the proposed budget are available at a cost of \$45.44 (the cost of printing). In accordance with the City Charter, the City’s budget process is led by the City Manager, who is required to present a proposed balanced budget to City Council by May 1. A series of budget workshops allow City Council time to discuss and balance the budget before the new fiscal year begins on July 1 each year.

#### **CHARTER REQUIREMENTS:**

The budget shall provide a complete financial plan for the budget year. It shall include the following:

- An itemized statement of estimated revenues, including comparison to prior years.
- An itemized statement of proposed expenditures recommended by the city manager for each office, department or agency.
- A statement of the amount required for the payment of interest, amortization and redemption charges on the debt for the city.
- Provision for contingencies in the amount not to exceed five percent of the total operating expenditures proposed.
- A general budget summary.
- Other information as the city manager may deem essential or required by ordinance or law.

Section 5.8 also states, "In no event shall the total amount of the proposed expenditures exceed the estimated income of the city."

## **2. Budget Guidelines**

- Provide the best service possible of general governmental services funded from current resources.
- Maintain fund balance (reserve) at a level of 20% of our operating funds budget.
- Provide competitive pay and benefits to our employees for our market and region.
- Provide a consistent level of service through appropriate use of non-recurring funds that will not be used for on-going expenses.
- Continue to look for new sources of revenue to improve the balance in the revenue structure via less reliance on sales tax due to its volatility.
- Maximize cost recovery through fees for municipal services, consistent with City Council direction.
- Seek the best level of service at the least cost through City forces, private sector contracts and not-for-profit contracts.

## **4. City Manager Analysis and Budget Recommendations:**

#### **PRIORITIES:**

- The proposed budget is a balanced budget, and in my view as City Manager, one that prioritizes **public safety, economic growth and increasing operational efficiencies**, while attempting to address funding needs within all areas of the organization.

#### **CHALLENGES:**

- Balancing the budget under our current funding model has presented a greater challenge each year. Although City departments have done a good job of running efficiently and keeping expenditures down and within budget, sales tax growth is not keeping pace with the increasing costs needed to fund operating demands to provide high-quality services. Many of our citizens experience the same struggle trying to manage their own household budgets.

- As in prior years, the City's General Fund operational and capital needs continue to far exceed available funding. I do not recommend cutting services or departmental budgets at this time, but continue to emphasize the importance of operational efficiency and encourage innovative thinking and creative solutions for cost recovery and revenue enhancement.

## 5. The City's Revenue Sources

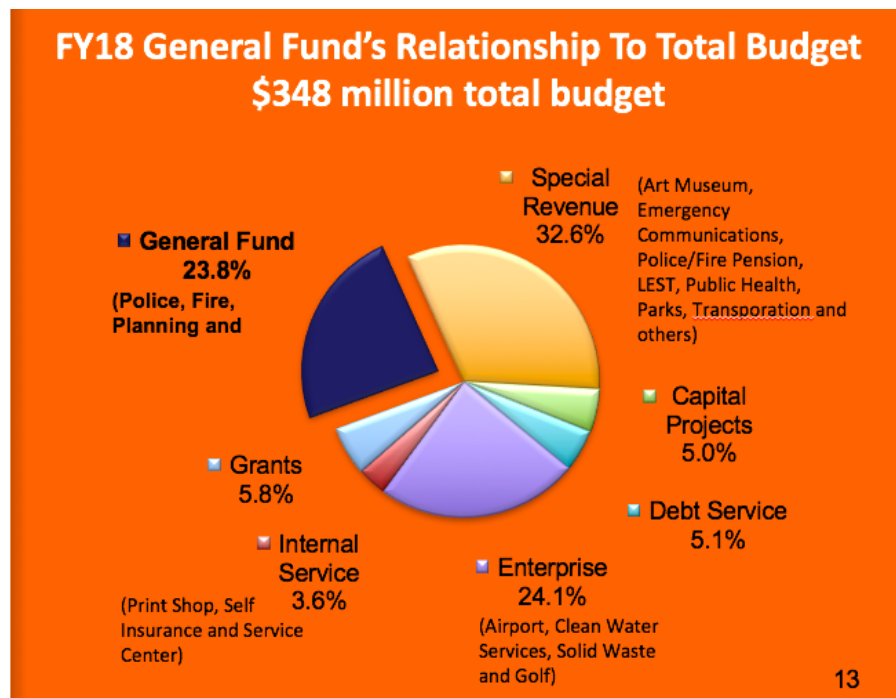
### The City's Revenue Sources

The City's operations are classified into fund groups for budget purposes. These fund groups are classified as general, special revenue, grant, capital projects, debt service, enterprise and internal service.

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The second largest individual segment of the City's operations is supported by the General Fund (FY18: \$83 million), which covers many of the City's core services. Those include police and fire, public works, planning and development, building development services and all administrative support services.

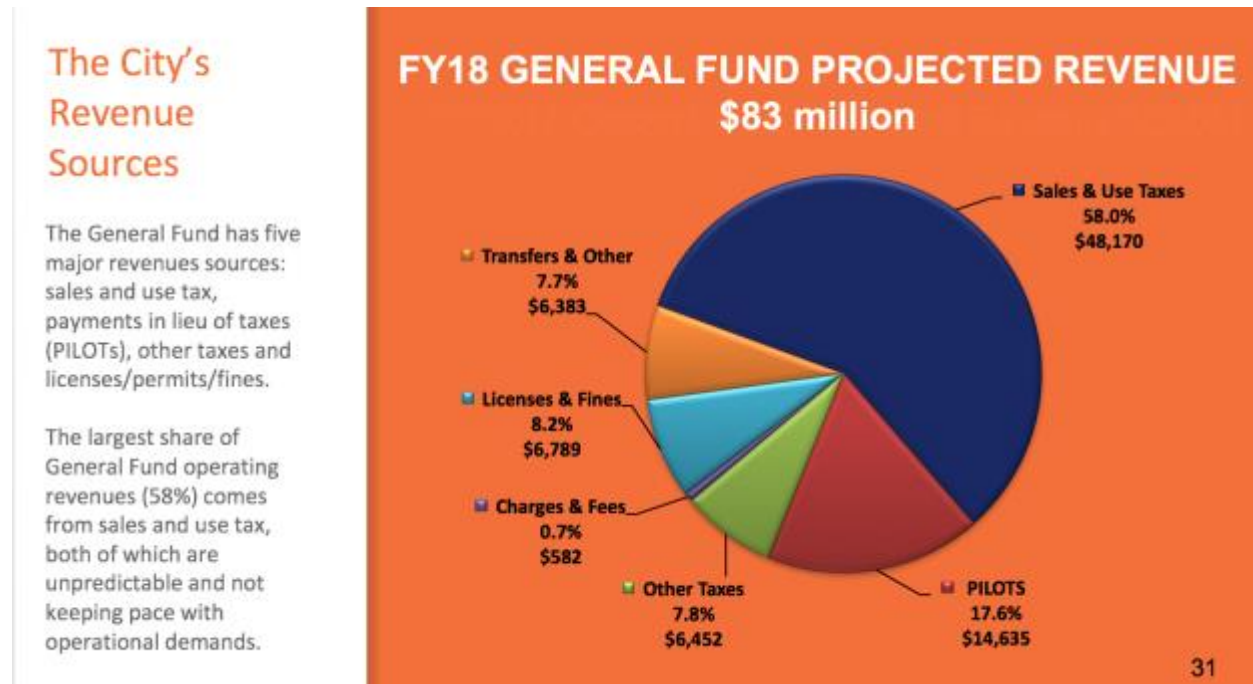
The General Fund is the primary focus of the City's annual budget process because it funds many of the high-profile citizen services and has the most flexibility for City Council's consideration. The City's budget for its remaining governmental fund group are specific designated revenue sources and the restricted activities and services that are provided by those funds.

For example, the City's "enterprise activities" (airport, sewer, solid waste and golf) are all self-supported operations. These "enterprise activities" provide the necessary revenue to cover the

total costs of their respective operations, including their capital improvements, through fees that paid for the services that are provided.

Over the years, taxpayers have shown a preference for designating any additional tax monies for specific purposes, greatly limiting the City's operational funding flexibility.

The General Fund's major revenue sources: sales tax, payments in lieu of taxes (PILOTs), licenses and permit fees and fines and penalties.



The largest share of General Fund operating revenues (58%) comes from sales and use tax, both of which are unpredictable and not keeping pace with operational demands. The City's overall sales tax revenues saw no growth during the past year.

**Use Tax** – a smaller component of sales tax on goods sold to Springfield residents by out of state vendors. (\$3,360,000)

**Gross Receipts** – a gross receipts tax on all telecommunications companies and cable television suppliers in the City. (\$5,570,000)

**Cigarette Tax** – taxes imposed on the sale of cigarettes in the City. (\$750,000)

**Room Tax** – tax derived from hotel and motel room rentals. (\$132,000)

**Fees and Charges** – excluding Hazelwood (which takes into account market rate), Sales of assets; surplus equipment sales; Zoning and economic development fees; Engineering construction inspection; Liquor investigation fees – \$582,500

- All fees for all funds we are currently recovering 92.35% of our cost.
- When fees change on July 1, we will be recovering 95.85% of the cost.
- Of the 240 charges evaluated last year, only 13 are not at 100% cost recovery.

**Licenses and Fines** – \$6,789,000

**Occupations Licenses** – \$3,965,000 (Business licenses)

**Permits** – \$1,706,000 (Building and related permits generated by BDS)

**Fines, Forfeitures, court costs and recoupments** – \$1,118,000 (Related to Municipal Court activities)

**Transfers and other** – The largest component of this section is the cost allocation transfer for administrative costs incurred by the General fund for Non-General Funds, better known as the overhead charges. In addition, included in this category is any fund balance appropriation used in the current budget.

## **6. Fiscal Year 2017 (FY 17) Revenue Highlights and Projections:**

**July 1, 2016 – June 30, 2017 (We are having to project for April, May and June)**

**The Story of FY 17:**

**Two things are helping to offset some of the expected FY17 sales tax shortfall:**

**1) Increases in other revenues**, such as payments in lieu of taxes (PILOTs) from City Utilities and licenses, fines and fees.

**2) FY16 Carryover Funds**, including \$300K proposed this year to jail expenses and \$700K to cover revenue shortfall come forward as a budget adjustment.

## FY17 General Fund Revenue Summary Current Year Ending June 30

### General Fund Revenue Summary

	FY2016		FY2017	
	Adopted Budget	Actual	Adopted Budget	Anticipated Actual
Sales Tax	\$ 42,500,000	\$ 43,890,784	\$ 45,400,000	\$ 44,141,000
			↓ 2.77%	
PILOTS	14,467,000	13,531,080	13,670,000	14,238,000
			↑ 6.8%	
Use & Other Taxes	10,206,500	10,512,578	9,996,500	9,854,000
Licenses, Fines & Fees	7,307,717	7,380,494	6,857,000	7,418,000
Transfers and Other	4,662,187	4,687,508	4,834,014	4,667,000
Subtotal (before FB Approp.)	\$ 79,143,404	\$ 80,002,444	\$ 80,757,514	\$ 80,318,000
			↑ 2.0%	
Fund Balance Appropriations	-	-	130,179	130,179
Total GF Revenues	\$ 79,143,404	\$ 80,002,444	\$ 80,887,693	\$ 80,448,179

Two things are helping to offset some of the expected FY17 sales tax shortfall:

- 1) Increases in other revenues that are anticipated to exceed their FY17 budget, such as payments in lieu of taxes (PILOTS) from City Utilities and licenses, fines and fees.
- 2) FY 16 Carryover Funds, including \$300K already proposed for jail expenses and \$700K to come forward as a budget adjustment to cover the anticipated General Fund revenue shortfall. The remaining \$700,000 for the FY16 carryover is included in the FY18 budget to cover a portion of the jail and inmate transportation expenses to be incurred next year.

Current year-to-date (as of May check): sales tax revenues are 4% below budget. We continue to monitor receipts and adjust expenses.

## 7. Fiscal Year 2018 (FY18) Revenue Highlights and Projections:

- We budgeted a conservative revenue estimate for FY18. Total revenue growth from budget FY17 to budget FY18 is estimated at only 0.9%.
- Sales tax, the largest source of revenue, is estimated 1.3% lower than FY17 budget, which makes this year's budget process even more difficult. Growth over FY17 anticipated actual ending sales tax is estimated at 1.5%.
- Helping offset some of the sales tax shortfall from FY17, other revenue sources, such as payments in lieu of taxes (PILOTS) from City Utilities and Licenses, Fines and Fees, are trending up slightly in FY17 and are projected to continue to do so next year.

## FY18 General Fund Revenue Summary

### General Fund Revenue Summary

	FY2017			FY2018
	Adopted Budget	Anticipated Actual		Proposed Budget
Sales Tax	\$ 45,400,000	\$ 44,141,000	↑ 1.5%	\$ 44,810,000
PILOTS	13,670,000	14,238,000		14,635,000
Use & Other Taxes	9,996,500	9,854,000		9,812,000
Licenses, Fines & Fees	6,857,000	7,418,000		7,371,500
Transfers and Other	4,834,014	4,667,000		4,816,511
Subtotal (before FB Approp.)	\$ 80,757,514	\$ 80,318,000		\$ 81,445,011
Fund Balance Appropriations	130,179	130,179	↑ 0.9%	1,566,209
Total GF Revenues	\$ 80,887,693	\$ 80,448,179		\$ 83,011,220

24

### The Story of FY18

Overall, the projected increase in revenue for the General Fund for FY2018 is approximately \$700,000, or 0.9%.

Sales and Use Tax decrease of \$230,000

PILOT increase of \$965,000

Other Taxes decrease of \$545,000

Licenses & fines increase of \$532,000

Charges and fees decrease of \$18,000

### Use of One-Time Funds

- The City Manager has used these one-time funding sources to piece together the FY18 budget and has proposed utilizing some of these one-time funds to pay ongoing expenses for one more year as a stop-gap measure.

### Sources of One-Time Funds

- Prior service credits
- Set aside monies for COPs grant
- Higher amount of salary savings from vacancies above and beyond budgeted expectation
- Remaining FY 16 carryover funds.

### **Prior Service Credits**

The City has \$714,351 of one-time Prior Service Credit funds that have not been utilized in the purchase of prior service credit by the applicable police and fire fighters that voluntarily moved into the LAGERS retirement plan.

The FY2011 budget letter noted the following reference to the Prior Service Credit:

***“Police and Fire employees in the Tier II Pension Plan were given the option to voluntarily move to LAGERS. The City has agreed to assist the employees in purchasing prior service credit at the time the employee vests in the LAGERS System in approximately five years. The estimated cost to the City is approximately \$1.5 million in five years (FY 2015). In anticipation of this expense, \$300,000 has been set aside in the FY2011 budget. We expect to continue this practice for the subsequent four years.”***

The City closed the Police Officers’ and Fire Fighters’ Retirement Plan (Plan) to new entrants on January 31, 2010. Members hired on or after June 1, 2006, voluntarily left the Plan and became members in LAGERS. The former members’ contributions to the Plan were refunded and they are no longer due any benefits from the Plan. As a mechanism to help these former Plan members buy back the lost Plan service credit with LAGERS, the City set aside the \$1.5 million that would supplement the prior Plan members returned contributions that were returned to make them whole for their total years of City service. Just over half of the former Plan participants took advantage of the offer and bought back their lost service in LAGERS, utilizing their Plan contributions that had been returned and the subsidy from the City’s Prior Service Credit fund. At the end of FY2015, all former Plan members who became vested in LAGERS and were eligible to buy back their service had one year to complete the process (by June 30, 2016). The remaining Prior Service Credit balance not utilized by the former Plan members that did not buy back their service totaled \$714,351. While these one-time funds were accumulated from the General Fund by saving over a five-year period, the FY2018 budget utilizes these remaining one-time funds on specific capital or life-safety budget requests.

The results of FY2017 have presented the City with some additional one-time savings from salary expenses (due to higher vacancies throughout the city). Part of the FY2017 salary savings will be proposed to fund \$655,000 of time-sensitive, one-time funding requests. These requests will soon be presented to City Council as a proposed adjustment to the FY2017 budget. The remaining salary savings carryover balance will be part of a FY2018 budget adjustment to help cover a variety of one-time funding needs.

## **8. New Funding Model Proposal**

### **The Need for Capital Improvements**



- Very few capital improvements have been funded via the City's General Fund during the past decade
  - The General Fund is typically used for ongoing, operational expenses (and is 79% personnel)
- Very little capital is funded in the City Manager's proposed FY18 General Fund budget. Most capital needs remain unfunded – many are related to public safety and public facilities.

#### **Funding needed for Capital Improvements:**

- Need a new source of revenue to supplement the General Fund to allow the City to address the community's most urgent needs
- Need a new source of revenue that does not require a tax increase (per commitment to voters prior to Police-Fire Pension Sales Tax passage)

#### **Examples of Unfunded Capital Needs**

- Lifecycle replacement of police vehicles and equipment
- Lifecycle replacement of fire apparatus, other vehicles and equipment
- Critical public safety infrastructure, such as fire stations and the public safety communication system
- Renovation and maintenance of public facilities, such as Fire Station roof replacement life cycle, station masonry improvements and mechanical improvements; a new Animal Shelter facility and upgrading Historic City Hall.
- Large-scale stormwater needs

#### **We Have the Plans; Not the Funds**

- We have a Capital Lifecycle Replacement Funding Plan
  - We have insufficient funds available to meet this need
- We have a Facilities Maintenance Needs list
  - We have insufficient funds available to meet this need
  -

#### **The Proposal:**

- Ask the voters to allow the City for the flexibility to continue to use "Level Property Tax" funds to address critical capital improvement needs, including implementation of a capital lifecycle funding plan, in addition to continuing to fund large-scale capital projects via bonding

#### **What is the "Level Property Tax"?**

- Instituted in in the 1980s – 27 cents on each \$100 of assessed value
- Renewed by voters in 2001 and 2004
- Has been used to fund large-scale capital projects, such as
  - Fire station construction, apparatus, and associated equipment
  - Emergency storm warning system
  - Jordan Valley Park land acquisitions

- Stormwater projects
  - Public facilities maintenance
- Primarily funded via issuance of debt
  - Bonds issued and paid off over multiple years
- Tax sunsets when last bond payment is made
- Currently generates approximately \$8.5 million annually
  - Approximately 2% growth annually
- Self-imposed caps by project category
  - Explanation Sheet; not referenced in ballot language
- Has been at or near maximum bonding capacity for many years
- Used to replace fire apparatus and police cars
- As pay down/off debt in future years, more “headroom” to address urgent needs within next few years

### Why is the Timing Right?

- When the Level Property Tax was originally established and proposed to voters, it was proposed to be a fixed amount: 27 cents per \$100 of assessed value (i.e., a “level” tax)
- Some past projects funded by the Level Property Tax are “rolling off” (completing bond payments), so some funds will be available in FY18 and beyond to address urgent capital improvement needs

### Possible Strategy:

- Seek voter approval to continue use of this funding source for public capital improvements, at no additional cost to the taxpayers
- Use available “headroom” funds for:
  - **Pay-as-you-go strategy** to fund capital lifecycle replacements for assets with shorter expected lifespan (e.g., police vehicles, police equipment, fire apparatus, fire vehicles, fire equipment, etc)
  - **Issue debt** for construction of capital assets with longer expected life
- Sunset most of tax in 22 years
  - Years 1-2: Fire station design, bidding, prep
  - Years 3-22: Pay off 20-year bonds
- Seek continuation of small portion of tax to fund ongoing costs for some urgent public safety needs
  - Police Department: Staffing for Domestic Violence Unit (FY18 budget request)
  - Fire Department: Staffing for two new fire stations to address “red zones” per recent fire deployment analysis
  - Public Works: Staffing to maintain facilities

### Discussion:

- Is this a funding option for public safety and public facilities that City Council would consider?

- If so, staff can provide additional information regarding . . .
  - **Level Property Tax** – “Headroom” moving forward
  - **Capital project needs** that could be addressed

## **Budget Workshop Series Highlights & Takeaways**

- *The City’s needs continue to far exceed available funding. Far more budget requests were received than can be funded.*
- *Proposed funded needs take into account resources needed in all operating units to maintain that level, but priorities in the proposed budget are public safety, economic growth, increasing operational efficiencies.*
- *The future economic climate uncertain and changing and revenues for FY17 are down, so we have a conservative revenue estimate for FY18.*
- *FY 18 sales tax is projected below budgeted FY 17 levels. Overall, general fund revenues are projected to increase .9%, but that is due to projected increases in PILOTs and thanks to the use of one-time funds only available this year.*
- *The City is maintaining an appropriate reserve level and Moody’s high bond rating and other broad fiscal indicators illustrate that the City’s overall financial health is strong.*
- *The City’s need for a lifecycle capital replacement funding source is becoming urgent.*
- *It has been difficult and we’re getting squeezed on both revenue and expense sides as the COPS grant approval pre-committed future new revenues and revenues are not keeping pace with inflation.*
- *We’re faced with the continuing and unusual large expense of transporting and housing inmates (almost \$1 million). This is being addressed by one-time funds in both FY17 and FY18.*
- *This year’s budget is cobbled together using four, unusual, one-time funding sources as a one-year stop gap.*
- *Level Property Tax proposal provides possible funding tool.*